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**NORTHERN BRANCH
OFFICE OF REPORTS AND ESTIMATES
CENTRAL INTELLIGENCE AGENCY**

WORKING PAPER

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Office of Reports and Estimates
Northern Branch

BRITISH DIVISION

UNITED KINGDOM

1. The significance of the dockers' strike.

The strike on the London docks, now in its fourth week and involving upwards of 15,000 workers and 140 ships, must be characterized as a Communist achievement; but, along with signs of unrest and discontent in some other labor unions, the strike also demonstrates to what extent relations have deteriorated between labor's rank-and-file on the one hand and Labor Party and union leaders on the other. A year ago a warning and an appeal from the Prime Minister promptly ended a dockers' strike over the discharge of redundant labor. The present strike will probably end very soon, but not as a result of the Government's and leaders' appeals or the invocation of emergency powers. Economic pressure and a slow recognition of Communist exploitation is beginning to soften the workers. The Communists' ruses are only now becoming transparent.

The strike of the dockers and bargemen has as its basis not pay or hours or working conditions, but sheer political agitation. While the two Canadian ships in the Thames remain central to the dispute, the issues which unofficial strike leaders have raised to prolong the strike have periodically shifted. Their appeals to "solidarity" with the striking Canadians--the dockers are especially vulnerable to that approach--have since 20 June found support over the arguments of their union, Government, and Labor Party leaders; over public opinion; and over the disapproval of other unions. It has become painfully clear that the rank-and-file have not looked to their national or trade union leaders for guidance. It is a case of lost allegiance, a development which emergency powers and severe measures will not reverse, and which contains serious political consequences for the Labor Party. The Party's loss of general prestige must be considerable.

Whether many other British unions could be similarly duped is questionable. Among the few others which are strongly Communist influenced, only the Electrical Workers' Union is important. Moreover, the Communist success on the docks will hasten the

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process in other unions of removing Communists from key positions; the largest trade union in Britain has just resolved to exclude Communists from all its offices. Nevertheless, there has been recently apparent in the ranks of labor an undertow of irresponsibility and defiance, growing out of discontent with the Attlee Government's handling of labor relations. This is good soil for Communist exploitation, but the patriotism and commonsense of British labor, by and large, would limit the effectiveness of nakedly political agitation; and most unions are undoubtedly loyal to their leaders.

The current strike is doing some damage to the economy, but this can be over-rated. The hold up of exports will be reflected in the July figures. The shipments will go forward, however, when the strike ends; probably little export business has been actually lost. Shipping receipts will be slightly affected. With regard to imports, troops and some 12,000 non-striking port workers are unloading the perishables and cargoes of refrigerator ships which work to careful schedules, and are loading some outgoing cargoes. The failure of other commodities to be brought ashore is causing no reported concern at this juncture.

2. The cut in dollar imports

The announced 25% cut in imports from the US, which will run to about \$400 million on an annual basis, is an emergency measure aimed at eliminating, or at least narrowing sharply, the current dollar deficit. It is entirely apart from measures, now in the planning stage, to cope with Britain's and the sterling area's present inability to earn enough dollars. These latter measures, expected to be of comprehensive scope, cannot be formulated before next fall at the earliest pursuant to consultations in the Commonwealth and in the US.

The 25% cut--a reduction from the planned rate of imports, not from last year's actual levels--involves timber, paper and pulp, non-ferrous metals, steel, machinery, sugar and tobacco. The British sugar ration is being reduced and candy rationing resumed. In palliation minute increases in the butter, meat, and bacon rations have been authorized. The import reduction has been labelled a temporary expedient which will not adversely affect the recovery drive. This may be accepted so long as a short term is adhered to, since domestic stocks can be drawn on to some extent in case of need. If it is found necessary, however, to extend the measure some damage to the economy and pain to both the

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British consumer and the US exporter seems inevitable; considering how rigidly the UK has regularly restricted its dollar imports to necessities, a reduction of the planned magnitude must lead to a lower standard of living, even fewer incentives to labor to work harder, and a shortage of certain raw materials leading possible to some reduced production and unemployment.

3. UK concern over Czech religious persecutions

Great indignation in the UK--especially among Roman Catholics--over the Czechoslovak Government's persecution of Archbishop Dr. Beran and the Catholic clergy has resulted in a deluge of letters to the Foreign Office demanding that current trade talks with Czechoslovakia be called off. The British Government's answer has been that, much as it deplores Czech actions against Beran, the UK "cannot afford" to sever these negotiations.

This incident has again illustrated the British dilemma in UK-Eastern European relations as economic necessity severely restricts Britain's field of diplomatic maneuver. The UK, in close coordination with the US, has, on the whole, taken a firm political line with the Soviet Union's Balkan satellites as exemplified in current diplomatic moves involving the Anglo-US invocation of the peace treaties with Rumania, Hungary and Bulgaria. However, UK policy toward the satellites has been conditioned by the wish to:

- a) maintain diplomatic listening posts in the curtain countries;
- b) avoid actions which might merely emphasize Western ineffectiveness;
- and c) maintain and expand UK-Eastern European trade. It is improbable, therefore, that the British Government will go beyond routine political statements at this time, deploring and denouncing Czechoslovak persecution of the Catholic Church.

UK-COMMONWEALTH RELATIONS

1. Commonwealth Finance Ministers explore remedies for sterling-dollar problem

The 25% cut in dollar imports agreed to at the Commonwealth Finance Ministers' conference of 12-13 July is, like the UK's earlier announcement to the same effect, a short-term expedient for dealing with the immediate situation rather than a solution to the larger problem. It was probably agreed to with varying degrees of reluctance by the various Dominion representatives, depending on the extent to which their own countries are currently overdrawn on dollar allocations from the sterling area pool.

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The Finance Ministers probably spent more of their time in exploring various long-term plans (most of them involving some form of US financial aid) which seemed to offer at least a partial solution. One of these remedies, as Chancellor Cripps has already hinted in a laudatory reference to the International Wheat Agreement, is the stabilization of prices and volume in a number of primary commodities which the sterling area produces. The sterling area's current dollar crisis has, indeed, been attributed in part to recent falls in the price and volume of its exports of a number of these commodities. Press opinion in Ceylon has already been calling for international action to stabilize the price of rubber, and the idea generally is likely to attract considerable support in the Commonwealth countries which, by and large, get their dollars by the export of primary raw materials. Carrying out of the plan would, however, depend on the US's willingness to contract for stated quantities of the raw materials in question on long-term contracts at fixed prices; its full exploration, therefore, must await the September conferences of Cripps with Secretary Snyder and Canadian Finance Minister Abbott. Foreign Minister Bevin has apparently been trying to lay the ground work for such a proposal by several recent references to the US's program of supporting domestic farm prices.

NORTH AMERICAN DIVISION

CANADA1. Canada and the UK financial crisis

Although the British financial crisis is of deep concern to Canada, it is believed that Canadian Finance Minister Abbott carried with him to the recent talks in London no definite program of aid and that his position would be largely dependent on that of the US. The Canadian official attitude has been that further credits to the UK cannot be extended, but if pressed to approve larger monthly withdrawals* of the balance of the 1946 loan and/or further extensions of credit, Canada may be forced reluctantly to accede. Although a degree of sympathy for the British will undoubtedly be expressed if aid is extended, this feeling has greatly diminished. Opinion, particularly vocal in the press, is one of criticism of the internal policies of the UK Labor Government and of the British bilateral trade ties. Many Canadians feel that changes must come soon in Britain and

*(At the present rate of \$10 million monthly, withdrawals will end in December, 1950).

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that a return to multilateral trade must be hastened. The probable necessity of interim aid is recognized, but there is an increasing tendency to side with the US in the present difficulties.

SCANDINAVIAN DIVISION

DENMARK

1. Proposed Danish defense reorganization

One of the few concrete actions taken by the civilian Danish Defense Commission since its appointment in 1946 to work out a plan for the defense of Denmark is agreement to propose to the Riksdag (Danish Parliament) enactment of legislation which would consolidate and unify the armed services under the Defense Minister, with one Chief of Defense and co-equal Army, Navy and Air Commands. Presently the armed services are organized with only Army and Navy Commands each possessing separate air components and operating, to a great extent, independently. These commands are responsible to the Minister of Defense for command purposes but to separate War and Naval Ministries headed by Directors, for administration. With final Riksdag approval of the legislation expected in four to six months, the proposed organization represents an important and necessary step in the improvement of Danish defense forces which are capable, at present, of no more than token resistance to an invader. It will be of little significance to Danish defense capabilities, however, unless substantial arms aid and military guidance are provided to Denmark by the Western powers.

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